

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name White Lake Community Library	County Muskegon
Audit Date 12/31/05	Opinion Date 2/7/06	Date Accountant Report Submitted to State: 4/27/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.			
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
		ZIP 48823	
Accountant Signature <i>Abraham & Gaffney, P.C. Aaron M. Loren</i>			Date 4/27/06

**White Lake Community Library
Whitehall, Michigan**

FINANCIAL STATEMENTS

December 31, 2005

White Lake Community Library

Whitehall, Michigan

December 31, 2005

BOARD OF DIRECTORS

Robert Christie	President
Robert Ecklund	Vice-President
Michael Bozym	Secretary
Marilyn Ryan	Treasurer
David Moon	Member
Donna Will	Member
Douglas Ogden	Member
William Traynor	Member

White Lake Community Library

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Principals

Dale J. Abraham, CPA
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ABRAHAM & GAFFNEY, P.C.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
White Lake Community Library
Whitehall, Michigan

We have audited the accompanying financial statements of the governmental activities, and each major fund of the White Lake Community Library as of and for the year ended December 31, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of White Lake Community Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, and each major fund of the White Lake Community Library as of December 31, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 7, 2006

White Lake Community Library
MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

The discussion and analysis of the Library's financial performance provides an overview of the Library's financial activities for the fiscal year ended December 31, 2005. Please read it in conjunction with the Library's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2005:

- The assets of the Library exceeded its liabilities at the end of the most recent fiscal year by \$609,305 (net assets) at the government-wide level.
- The Library's total net assets increased by \$93,564 at the government-wide level. Net assets increased another \$15,944 due to a prior period adjustment for compensated absences, this part of the total increase was not due to activities for the fiscal year, and is not included in the changes in net assets of governmental activities reconciliation.
- Total governmental fund balance increased by \$ 51,503 in the current year at the fund level, which includes a prior period adjustment of \$2,821 to include an investment held at the Lakeland Library Cooperative in White Lake Community Library's name, which was previously unrecorded.
- The Library's materials collection is constantly being updated with current titles.
- The amount of the fund balance designated for future expansions was \$29,982.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the White Lake Community Library as a whole and present a longer-term view of the Library's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the White Lake Community Library in more detail than the government-wide financial statements by providing information about the Library's most significant funds.

The Library as a Whole

The following table shows, in a condensed format, the net assets as of December 31, 2005 and 2004.

	December 31	
	2005	2004
Assets		
Current assets	\$ 715,195	\$ 641,417
Capital assets, net	<u>1,811,472</u>	<u>1,838,492</u>
Total assets	2,526,667	2,479,909

White Lake Community Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

The Library as a Whole - continued

	December 31	
	2005	2004
Liabilities		
Current liabilities	\$ 516,137	\$ 430,543
Noncurrent liabilities	<u>1,401,225</u>	<u>1,549,569</u>
Total liabilities	1,917,362	1,980,112
Net Assets		
Invested in capital assets	346,472	308,492
Restricted	-	72,325
Unrestricted	<u>262,833</u>	<u>118,980</u>
Total net assets	<u>\$ 609,305</u>	<u>\$ 499,797</u>

The Library's total net assets were \$609,305 at December 31, 2005. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$262,833 at the end of the fiscal year - an increase of \$143,853 from the prior year. The net assets invested in capital assets were at \$346,472, which was an increase of \$37,980 from the prior year.

The following table shows the changes in net assets during the years ended December 31, 2005 and 2004.

	December 31	
	2005	2004
Revenues		
Program revenue:		
Charges for services	\$ 19,303	\$ 26,928
Operating grants and contributions	30,482	46,635
General revenue:		
Property taxes	426,672	387,718
State Aid - unrestricted	9,305	9,337
Penal Fines	37,426	39,424
Interest	9,102	3,087
Miscellaneous	<u>663</u>	<u>1,863</u>
Total revenues	532,953	514,992
Program Expenses		
Library services/operations	369,644	386,565
Interest on long-term debt	<u>69,745</u>	<u>79,062</u>
	<u>439,389</u>	<u>465,627</u>
Change in Net Assets	<u>\$ 93,564</u>	<u>\$ 49,365</u>

White Lake Community Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

Governmental Activities

The Library's governmental revenues totaled \$532,953 with the greatest revenue source being property taxes. Property taxes make up approximately 80 percent of total governmental revenue. Property taxes increased approximately 6 percent from the prior year. This increase is attributable to increasing taxable values in the area, as the millage levied for the 2005 fiscal year was the same as that levied for 2004. Over the past few years, state shared revenue and county penal fine income have both declined.

The Library incurred expenses of \$439,389 during the year. The majority of governmental expense is associated with the staffing of the Library, which provides all library services.

The Library's Funds

The White Lake Community Library operates two separate funds, each of which serves a different function. The General Fund is the Library's primary operating fund in which all transactions for day to day operation are recorded. The Debt Service Fund is established to collect taxes and pay the long term debt associated with the Library's bond issue used to build the library building.

The fund balance of the General Fund increased \$9,254 because revenues were higher than currently required expenditures and by \$2,821 for a prior period adjustment for an understatement of accounts receivable in the prior year. The ending fund balance of \$163,619 is equal to a little less than one-half of our annual expenditures.

In the General Fund, the significant balances, other than cash, are taxes receivable and deferred revenue which is both the taxes collected in December 2005 that are for 2006 expenditures and the portion of 2006 tax revenues levied in 2005 that are expected to be collected. The portion of the fund balance that is designated for future expansion is being set aside for growth of the library due to increased patronage and increase in the district's population each year. It is not restricted in any way.

The fund balance of the Debt Service Fund increased \$39,428 in 2005, bringing the fund balance to \$111,753. The property taxes collected for the Debt Service Fund is restricted to be used only for payment of the bond principal and interest. The bond principal and interest payments were \$141,489 in 2005.

General Fund Budgetary Highlights

Over the course of the fiscal year, the Library Board made necessary budget adjustments to fund unanticipated expenditures during the year. In total, actual expenses in the general fund were \$11,653 less than budgeted.

Capital Asset and Debt Administration

The largest capital assets purchased and/or donated to the library in 2005 were books and materials in the amount of \$35,601. Books and materials taken out of the collections totaled \$24,374 and were fully depreciated. Equipment purchased included new computers and the video projection system in the meeting room. The Library building was completed and occupied in September 2000. The value, net of accumulated depreciation at the end of 2005 was \$1,628,042. The Library has no plans for any capital expenditures in 2006.

The Library acquired no new debt in 2005. The balance for the bonds for the building was \$1,465,000 at December 31, 2005. In 2005, \$65,000 worth of bonds was retired. The \$6,288 in compensated absences is the balance of the amount employees whose are entitled to receive paid sick time at separation would have to be compensated.

White Lake Community Library
MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

Budget Factors and Currently Known Facts for 2006

Property tax revenues are expected to increase 1.7% in 2006. The Library Board adopted an operating budget for 2006 anticipating total revenues in the General Fund of \$323,103 and expenditures of the same amount.

Contacting the Library's Management

This financial report is intended to provide a general overview of the Library's finances for all those interested in them. If you have questions about this report or need additional information, we welcome you to contact the Library Director, Bette Carlson at the White Lake Community Library, 3900 White Lake Drive, Whitehall, Michigan 49461.

BASIC FINANCIAL STATEMENTS

White Lake Community Library

STATEMENT OF NET ASSETS

December 31, 2005

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 321,325
Receivables	387,448
Prepays	<u>6,422</u>
Total current assets	715,195
Noncurrent assets	
Capital assets not being depreciated	24,480
Capital assets, net of accumulated depreciation	<u>1,786,992</u>
Total noncurrent assets	<u>1,811,472</u>
TOTAL ASSETS	2,526,667
LIABILITIES	
Current liabilities	
Accounts payable	8,641
Accrued wages	5,683
Accrued liabilities	847
Deferred revenue	424,652
Accrued interest payable	6,251
Current portion of compensated absences	63
Current portion of long-term debt	<u>70,000</u>
Total current liabilities	516,137
Noncurrent liabilities	
Noncurrent portion of compensated absences	6,225
Noncurrent portion of long-term debt	<u>1,395,000</u>
Total noncurrent liabilities	<u>1,401,225</u>
TOTAL LIABILITIES	<u>1,917,362</u>
NET ASSETS	
Invested in capital assets, net of related debt	346,472
Unrestricted	<u>262,833</u>
TOTAL NET ASSETS	<u>\$ 609,305</u>

See accompanying notes to financial statements.

White Lake Community Library

STATEMENT OF ACTIVITIES

Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Recreation and cultural	\$ 369,644	\$ 19,303	\$ 30,482	\$ (319,859)
Interest on long-term debt	69,745	-	-	(69,745)
	<u>\$ 439,389</u>	<u>\$ 19,303</u>	<u>\$ 30,482</u>	(389,604)
General revenues:				
Property taxes				426,672
State aid				9,305
Penal fines				37,426
Investment earnings				9,102
Miscellaneous				<u>663</u>
TOTAL GENERAL REVENUES				<u>483,168</u>
CHANGE IN NET ASSETS				93,564
Net assets, beginning of year				499,797
Prior period adjustment				<u>15,944</u>
Net assets, end of year				<u>\$ 609,305</u>

See accompanying notes to financial statements.

White Lake Community Library

GOVERNMENTAL FUNDS BALANCE SHEET

December 31, 2005

	General	Debt Service	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 188,506	\$ 132,819	\$ 321,325
Receivables			
Accounts	10,221	-	10,221
Taxes	209,621	167,606	377,227
Prepays	6,422	-	6,422
TOTAL ASSETS	\$ 414,770	\$ 300,425	\$ 715,195
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Accounts payable	\$ 8,641	\$ -	\$ 8,641
Accrued wages	5,683	-	5,683
Accrued liabilities	847	-	847
Deferred revenue	235,980	188,672	424,652
TOTAL LIABILITIES	251,151	188,672	439,823
FUND BALANCES			
Reserved for			
Prepays	6,422	-	6,422
Debt service	-	111,753	111,753
Unreserved			
Designated for future expansion	29,982	-	29,982
Undesignated, reported in General Fund	127,215	-	127,215
TOTAL FUND BALANCES	163,619	111,753	275,372
TOTAL LIABILITIES AND FUND BALANCES	\$ 414,770	\$ 300,425	\$ 715,195

See accompanying notes to financial statements.

White Lake Community Library

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2005

Total fund balance - governmental funds **\$ 275,372**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 2,555,431	
Accumulated depreciation is	<u>(743,959)</u>	
Capital assets, net		1,811,472

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.
Long-term liabilities at year-end consist of:

Direct obligations	1,465,000	
Accrued interest payable	6,251	
Compensated absences	<u>6,288</u>	
		<u>(1,477,539)</u>

Net assets of governmental activities **\$ 609,305**

See accompanying notes to financial statements.

White Lake Community Library

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended December 31, 2005

	General	Debt Service	Total Governmental Funds
REVENUES			
Property taxes	\$ 248,477	\$ 178,195	\$ 426,672
Intergovernmental			
State	9,305	-	9,305
Local	15,811	-	15,811
Charges for services	9,363	-	9,363
Fines and forfeits	47,366	-	47,366
Interest	5,555	3,547	9,102
Other			
Grants	2,000	-	2,000
Contributions	12,671	-	12,671
Other	663	-	663
TOTAL REVENUES	351,211	181,742	532,953
EXPENDITURES			
Recreation and cultural			
Salaries and wages	152,096	-	152,096
Fringe benefits	39,774	-	39,774
Postage	1,493	-	1,493
Supplies	14,287	-	14,287
Insurance	8,474	-	8,474
Repairs and maintenance	5,566	-	5,566
Utilities	33,830	-	33,830
Professional services	1,697	825	2,522
Contracted services	33,258	-	33,258
Printing and publishing	2,060	-	2,060
Travel and meals	2,335	-	2,335
Telephone	3,443	-	3,443
Other	6,502	-	6,502
Capital outlay	37,142	-	37,142
Debt service			
Principal	-	65,000	65,000
Interest	-	76,489	76,489
TOTAL EXPENDITURES	341,957	142,314	484,271
EXCESS OF REVENUES OVER EXPENDITURES	9,254	39,428	48,682
Fund balances, beginning of year	151,544	72,325	223,869
Prior period adjustments	2,821	-	2,821
Fund balances, end of year	\$ 163,619	\$ 111,753	\$ 275,372

See accompanying notes to financial statements.

White Lake Community Library

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2005

Net change in fund balances - total governmental funds \$ 48,682

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	48,273	
Depreciation expense	<u>(75,293)</u>	(27,020)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement	65,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	6,744	
Decrease in accrued compensated absences	<u>158</u>	6,902

Change in net assets of governmental activities \$ 93,564

See accompanying notes to financial statements.

White Lake Community Library
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Under Public Act 24 of 1989, the City of Whitehall and the Townships of Whitehall, Fruitland, Blue Lake, and Dalton created the White Lake Community Library in 1997, which is considered a Community Library. Public Act 24 defines the Library's legal status as "an Authority under Section 6 of Article IX of the State Constitution of 1963" thereby classifying the Library as a Michigan Municipal Corporation. The City and Townships collect and distribute property taxes that are levied for the Library.

The governing body of the Library is a board which is comprised of eight (8) members, appointed by the participating governmental units, and is administered by a Library Director appointed by the Board.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of White Lake Community Library (primary government). The Library has no activities that would be classified as component units.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole. Interfund activity has been eliminated in the preparation of these statements.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Library's individual major funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The major funds of the Library are:

- a. The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library except for those that are required to be accounted for in another fund.
- b. The Debt Service Fund is used to account for the financial resources that are used for the retirement of long-term debt.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

5. Budgets and Budgetary Accounting

The General Fund budget shown as required supplementary information was prepared on a basis consistent with the basis used to reflect actual results. The Library employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to the beginning of the year, the Library Director prepares and submits to the Library Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. The budget is legally adopted at the individual revenue and expenditure item level prior to December 31.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Library Board. All appropriations lapse at year end.
- e. Budgeted amounts are reported as originally adopted or amended by the Library Board during the year.

6. Cash and cash equivalents

Cash and cash equivalents consist of money market checking and savings accounts.

White Lake Community Library

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Property Taxes

The participating City and Townships levy and collect property taxes for the Library. As the Library tax is collected it is remitted by the City and Township Treasurers. At March 1 each year the City and Townships settle their delinquent taxes with the respective County Treasurer and the unpaid real property tax is remitted to the Library by the County Treasurer in Muskegon County. Delinquent personal property taxes are retained by the Treasurers for subsequent collection. The Library is permitted by state statute to levy up to \$0.70 per \$1,000 of assessed valuation on property within the Library for operations. For the year ended December 31, 2005, the Library levied 0.6800 mills for operations, and 0.4700 mills for debt, respectively.

8. Capital Assets

Capital assets include land, land improvements, buildings, equipment and furniture, and collections, and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with a cost greater than \$1,000 and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	20 years
Buildings	50 years
Equipment and furniture	3-5 years
Collections	7 years

9. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

10. Compensated Absences

Library employees are granted vacation and sick leave in varying amounts based on position and length of service. Vacation must be used by December 31 or it is forfeited. Employees can accumulate up to 24 sick days. Upon termination, resignation, or retirement unused accumulated sick leave is paid at the current pay rate.

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the Library has recorded all liabilities associated with compensated absences. Accumulated vested sick amounts are considered payable from future resources and are recorded along with the related payroll taxes as a noncurrent liability in the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

NOTE B: CASH AND CASH EQUIVALENTS

The Library cash consists of money market checking and savings accounts, and are reported as cash in the basic financial statements.

In accordance with Michigan Compiled Laws, the White Lake Community Library is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it.

White Lake Community Library

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE B: CASH AND CASH EQUIVALENTS- CONTINUED

Deposits of the Library are at federally insured banks located in the State of Michigan with all accounts maintained in the name of White Lake Community Library. As of December 31, 2005, the carrying amount of the Library's deposits was \$321,275 and the bank balance was \$276,845, of which \$133,757 was covered by Federal depository insurance. The balance of \$143,088 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Library held as cash, cash equivalents, and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

As of December 31, 2005, the carrying amount and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ 158,474	\$ 135,110
Savings	<u>162,801</u>	<u>141,735</u>
TOTAL	<u>\$ 321,275</u>	<u>\$ 276,845</u>

As of December 31, 2005, the Library's deposits were insured by the FDIC for \$229,982, and the amount of \$46,863 was uninsured and uncollateralized.

The cash and cash equivalents reported in the financial statements include \$50 in imprest cash.

Interest rate risk

The Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designating its investment portfolio with the objective of obtaining a rate of return through the economic cycles considering risk constraints and cash flow characteristics.

Concentration of credit risk

The Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio by security type to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Custodial credit risk

The Library will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments of collateral securities that are in possession of an outside party by diversifying its investments by institution to ensure that potential losses on individual securities do not exceed the income generated by the remainder of the portfolio.

White Lake Community Library

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005
Capital assets not being depreciated				
Land	\$ 24,480	\$ -	\$ -	\$ 24,480
Capital assets being depreciated				
Buildings	1,822,436	-	-	1,822,436
Land improvements	36,051	-	-	36,051
Books, periodicals, and videos	458,662	35,601	(24,374)	469,889
Equipment and furniture	<u>189,903</u>	<u>12,672</u>	<u>-</u>	<u>202,575</u>
Subtotal	2,507,052	48,273	(24,374)	2,530,951
Less accumulated depreciation for:				
Buildings	(157,945)	(36,449)	-	(194,394)
Land improvements	(5,851)	(1,803)	-	(7,654)
Books, periodicals, and videos	(348,944)	(27,149)	24,374	(351,719)
Equipment and furniture	<u>(180,300)</u>	<u>(9,892)</u>	<u>-</u>	<u>(190,192)</u>
Subtotal	<u>(693,040)</u>	<u>(75,293)</u>	<u>24,374</u>	<u>(743,959)</u>
Net capital assets being depreciated	<u>1,814,012</u>	<u>(27,020)</u>	<u>-0-</u>	<u>1,786,992</u>
Capital assets, net	<u>\$ 1,838,492</u>	<u>\$(27,020)</u>	<u>\$ -0-</u>	<u>\$ 1,811,472</u>

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the Library for the year ended December 31, 2005.

	Restated Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005	Due Within One Year
PRIMARY GOVERNMENT					
1999 Building and Site Bonds	\$ 1,530,000	\$ -	\$ 65,000	\$ 1,465,000	\$ 70,000
Compensated absences	<u>6,446</u>	<u>-</u>	<u>158</u>	<u>6,288</u>	<u>63</u>
	<u>\$ 1,536,446</u>	<u>\$ -0-</u>	<u>\$ 65,158</u>	<u>\$ 1,471,228</u>	<u>\$ 70,063</u>

Significant details regarding outstanding long term debt is presented below:

1999 Building and Site Bonds

\$1,750,000 Building and Site Bonds, dated July 1, 1999, due in annual installments ranging from \$70,000 to \$130,000 through May 1, 2020, with interest ranging from 4.65 to 5.25 percent, payable semi-annually.

\$ 1,465,000

White Lake Community Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE D: LONG-TERM DEBT - CONTINUED

The annual requirement to pay the debt principal and interest outstanding for the bonds is as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 70,000	\$ 73,383	\$ 143,383
2007	70,000	70,093	140,093
2008	75,000	66,611	141,611
2009	80,000	62,812	142,812
2010	85,000	58,686	143,686
2011-2015	480,000	223,061	703,061
2016-2020	<u>605,000</u>	<u>82,295</u>	<u>687,295</u>
	<u>\$ 1,465,000</u>	<u>\$ 636,941</u>	<u>\$ 2,101,941</u>

Compensated absences

Individual employees have vested rights upon termination of employment to receive payments for sick leave. The dollar amounts of these vested rights including related payroll taxes, which have been recorded as a liability in the governmental-wide financial statements, amounted to approximately \$6,288 at December 31, 2005.

NOTE E: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance or net assets which the Library has set aside for specific purposes. These reserves and designations are recorded at the fund level to indicate management plans for these funds.

The following are the fund balance reserves as of December 31, 2005:

Fund Balances

General Fund	
Reserved for prepaids	<u>\$ 6,422</u>
Debt Service Fund	
Reserved for debt service	<u>\$ 111,753</u>

The following is the fund balance designation as of December 31, 2005:

General Fund	
Designated for future expansion	<u>\$ 29,982</u>

White Lake Community Library
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE F: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the budgetary comparison schedule, the Library's budgeted expenditures in the General Fund have been shown at the functional classification level. The approved budget of the General Fund has been adopted at the individual revenue and expenditure item level.

During the year ended December 31, 2005, the Library incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amount Appropriated</u>	<u>Amount Expended</u>	<u>Variance</u>
General Fund			
Salaries and wages	\$ 151,081	\$ 152,096	\$ 1,015
Repairs and maintenance	5,050	5,566	516
Utilities	32,900	33,830	930
Contracted services	32,702	33,258	556
Travel and meals	2,000	2,335	335
Capital outlay	36,335	37,142	807

NOTE G: RISK MANAGEMENT

The Library maintains commercial insurance for property, liability, bonding, and casualty losses. The Library also participates in a State Pool, the Michigan Municipal Workers Compensation Fund, with other municipalities for worker's compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The Library has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

NOTE H: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made during the year, which were the result of corrections of accounting errors. These adjustments were reported as changes to beginning net assets and fund balances, respectively. The effect on operations and other affected balances for the current and prior year are as follows:

	<u>December 31, 2005</u>	<u>2004</u>	<u>Description</u>
Governmental Activities			
Accumulated compensated absences	\$ -	\$(13,123)	Correct overstatement
Accounts receivable	-	2,821	of compensated absences
Net assets - beginning	15,944	-	and understatement of
			accounts receivable
General Fund			
Accounts receivable	-	2,821	Correct understatement
Fund balance - beginning	2,821	-	of accounts receivable

NOTE I: ECONOMIC DEPENDENCY

Approximately 10% of the property tax revenue is generated by taxes levied on a single organization, Hazmut Corporation. Any reductions in this revenue could have a significant impact on White Lake Community Library's operations.

REQUIRED SUPPLEMENTARY INFORMATION

White Lake Community Library

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2005

	Budget Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 248,434	\$ 248,434	\$ 248,477	\$ 43
Intergovernmental				
State	9,330	9,330	9,305	(25)
Local	12,090	12,090	15,811	3,721
Charges for services	8,000	8,500	9,363	863
Fines and forfeits	32,800	46,926	47,366	440
Interest	2,000	5,000	5,555	555
Other				
Grants	-	2,000	2,000	-
Contributions	7,135	11,706	12,671	965
Other	200	500	663	163
TOTAL REVENUES	319,989	344,486	351,211	6,725
EXPENDITURES				
Current				
Salaries and wages	151,581	151,081	152,096	(1,015)
Fringe benefits	38,869	40,216	39,774	442
Postage	1,440	1,640	1,493	147
Supplies	11,935	14,935	14,287	648
Insurance	8,664	8,664	8,474	190
Repairs and maintenance	3,250	5,050	5,566	(516)
Utilities	28,500	32,900	33,830	(930)
Professional services	1,700	1,700	1,697	3
Contracted services	33,132	32,702	33,258	(556)
Printing and publishing	1,600	2,100	2,060	40
Travel and meals	1,700	2,000	2,335	(335)
Telephone	3,000	3,500	3,443	57
Other	7,243	11,663	6,502	5,161
Capital outlay	27,375	36,335	37,142	(807)
TOTAL EXPENDITURES	319,989	344,486	341,957	2,529
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-0-	-0-	9,254	9,254
Fund balance, beginning of year	151,544	151,544	151,544	-0-
Prior period adjustments	-	-	2,821	2,821
Fund balance, end of year	\$ 151,544	\$ 151,544	\$ 163,619	\$ 12,075

Principals

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MANAGEMENT LETTER

Members of the Board of Trustees
White Lake Community Library
Whitehall, Michigan

As you know, we have recently completed our audit of the records of the White Lake Community Library as of and for the year ended December 31, 2005. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control and our discussions with management.

1. The Library should retain evidence of authorized pay rates in employee files.

During the course of our audit, we noted two (2) instances where employees' authorized pay rates were not included in their personnel files. We were unable to verify that the two (2) employees were being paid the proper wages.

We suggest the Library document in writing employee rates of pay upon hire and retain that documentation in their personnel files. This documentation should be updated when any changes in pay rates occur.

2. The Library should adopt and implement a conflict of interest policy.

During the course of our audit, we noted the Library has not developed or implemented a policy concerning conflict of interest as part of the policy manual. A conflict of interest policy will clarify the Library's position on ethical behavior and communicate that position to employees and board members.

We suggest the Library develop and implement a policy addressing conflict of interest and include it in the policy manual and periodically require a declaration of compliance from employees and board members. The Library should also obtain conflict of interest disclosure statements from its employees and board members.

3. The bookkeeper's duties should be rotated when the bookkeeper is on vacation.

During our discussions with management, we noted that the bookkeeper's duties are not performed while she is on vacation. This weakens the ability of management to detect potential fraud.

We suggest another Library employee be trained to perform the bookkeeper's duties and that these duties be rotated in the bookkeeper's absence in order to improve internal controls and to increase awareness of potential fraud.

4. The Library should adopt and implement a fraud risk management program.

During our discussions with management, we noted that the Library does not have a formal risk management program. Lack of policies and procedures related to fraud risk could potentially allow fraud to occur and be unreported or undetected. A sample fraud policy was recently provided to the Library Director.

We suggest the Library adopt a formal fraud risk management program. The program should include policies and procedures on ways for management to prevent, detect, and deter fraudulent activities.

5. The Library should deposit all monies received in a timely manner.

During our examination of revenues, we noted that checks for property taxes were received in December 2005 but not deposited until January 2006. As a result, the Library lost potential interest earnings and increased its susceptibility to fraudulent activity.

We suggest the Library make deposits in a timely manner, at least weekly. This would improve internal control over the safeguarding of cash and allow the Library to maximize its interest earnings.

6. The Library should adopt an electronic transactions resolution.

During our analysis of internal controls, it was noted that the Board has not implemented a written electronic transaction resolution as required by Michigan Compiled Law. Public Act 738 of 2002 requires that local units of government that utilize electronic transactions adopt a written Electronic Transaction Resolution. A sample Electronic Transaction Resolution was recently provided to the Library Director.

We suggest the Board prepare a formal electronic transaction resolution that complies with the compiled law and adopt it through Board action as soon as possible.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the basic financial statements dated February 7, 2006.

This report is intended solely for the information of management and the Board of Directors of the White Lake Community Library and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 7, 2006